

VZCZCXR06283
RR RUEHPA
DE RUEHFN #0262 1891204
ZNY CCCCC ZZH
R 081204Z JUL 09
FM AMEMBASSY FREETOWN
TO RUEHC/SECSTATE WASHDC 2744
INFO RUEHZK/ECOWAS COLLECTIVE

C O N F I D E N T I A L FREETOWN 000262

SIPDIS

DEPARTMENT FOR AF/W (JHUNTER)

E.O. 12958: DECL: 07/06/2019
TAGS: ECON PGOV PREL SL
SUBJECT: SL MAY LOSE GRIP ON CURRENCY

Classified By: Political/Economic Officer Amy LeMar for reasons 1.4 (b/d)

¶1. (C) The Sierra Leonean economy has not been known in recent years for robustness: years of corruption and bad governance, exacerbated by the civil war, destroyed export-oriented industry and the infrastructure needed to sustain it. In the long road to recovery from the war, a measure of economic stability has been established on the foundation of significant donor budget support, which will likely continue for years to come. While Sierra Leone was somewhat insulated from the first wave of effects from the global economic crisis, dependency on declining donor dollars and embattled multinational mining companies is bringing new strain to the economy.

¶2. (C) Meetings with the Minister of Finance, the Executive Director of one of Sierra Leone's largest private banks, and a UNDP economic consultant all identified the expected fallout of the generally bad international economic conditions: the "Leone," trading now at roughly 3,300 to the dollar, will likely be devalued by approximately 10% over the next two months. The country's foreign exchange reserves are being rapidly depleted, with oil and rice importers accounting for roughly 80% of the demand. Given the drop in diamond exports due to declining supply and a diminished global market, a reduction of remittances, and the drop of the British pound (note: the UK is a significant origin of both remittances and donor funds), as well as production issues faced by other key mining companies, little foreign exchange is coming into Sierra Leone at the moment. The Sierra Leone Commercial Bank representative noted that current demand for foreign exchange exceeds the bank's reserves by USD 3,000,000.

¶3. (C) Maintaining a floating exchange rate in the face of multiple pressures is a challenge, and the Minister noted that other currencies in the region are also depreciating rapidly and significantly. He bemoaned the government's ability to counter the trend through monetary policy, and acknowledged that weekly foreign exchange auctions have a "token influence" on currency value. The Minister hopes that the IMF and other donors will boost reserves in the near future.

¶4. (C) Comment: The government has done a credible job at keeping the Leone stable, but given the fragility of Sierra Leone's economy and dependence on a few key sources of revenue, the Government is hard-pressed to effectively handle external shocks of any kind. Endemic poverty and high unemployment are already the norm here; although rice and fuel price hikes have been patiently endured, the line between stability and violence in this country is extremely fine. A significant devaluation risks pushing a still fragile country over the brink and back into conflict. End Comment.

FEDZER